

This letter discusses reward credits, sometimes referred to as "hostess dollars." See 86 Ill. Adm. Code 130.401(c). (This is a GIL.)

June 20, 2005

Dear Xxxxx:

This letter is in response to your letter dated November 3, 2004, in which you request information. The Department issues two types of letter rulings. Private Letter Rulings ("PLRs") are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department's regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter ("GIL") is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at www.ILTAX.com to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

I represent a direct selling company that is registered with your state for the collection and remittance of sales taxes on behalf of its independent sellers.

My client sells consumer products through independent business commissioned business owners (Advisors). They collect sales tax based on the purchase price paid by the consumer including other taxable charges.

The advisors generally sell the products using the party plan. The party plan method of selling is where the advisor holds a show at an individual's home. The individual hosting the party is referred to as the hostess. The hostess invites individuals (party guests) to attend for the purpose of having the advisor display and take orders for the products.

As an incentive to hold a party, the hostess:

- Will receive a credit that can be used toward their purchases. The credit is 20% of the sales at the show.
- If the party obtains a certain volume of sales and number of orders from the guests, the hostess may pay \$15.00 and receive an additional 20% credit off their purchases.
- Will be allowed to purchase any four items at a special hostess price ranging from \$15.00 to \$60.00 each.

- Will be allowed to purchase two items at 50% off the suggested retail price.
- Will be allowed to purchase one additional item at 50% off the suggested retail price if purchased at a show that was booked by an individual attending their show.

Rulings Requested:

- On purchases by a hostess, is my client required to collect sales tax based on the suggested retail price or on the net selling price after subtracting the 20% credit.
- On purchases by a hostess, is my client required to collect sales tax based on the suggested retail price before subtracting the value of the additional 20% credit or on the net selling price plus the \$15.00 paid by the hostess?
- When the hostess elects to purchase up to four items and pay the special hostess price of from \$15.00 to \$60.00, is my client required to collect sales tax on the suggested retail price or the price paid (\$15.00-\$60.00) by the hostess?
- On the purchase of the two items using the 50% credit, is my client required to collect sales tax on the suggested retail price before subtracting the value of the 50% credit or on the net selling price?
- On the purchase of the additional item by the hostess at a show that was booked at the time of his/her show, is my client required to collect sales tax on the suggested retail price or on the net selling price after subtracting the value of the 50% credit?

My client also has an awards program for its advisors. Under this program, an advisor that meets certain sales or recruiting goals will receive an 'award product certificate'. This certificate will be redeemed by the company on purchases of sample products by the advisor.

The certificate is not redeemed for products that will be resold by the advisor. The cost of certificate is absorbed by the company. The certificate is viewed by the company as a manufacturer's coupon.

Ruling Requested:

- Is my client required to collect sales tax on the sales price before or after deducting the value of the 'award product certificate'?

Your prompt attention to this request is greatly appreciated. If you need additional information regarding this request, please contact me.

DEPARTMENT'S RESPONSE:

We are unable to provide a ruling on these transactions in the form of a general information letter. The Department's regulation on the "Meaning of Gross Receipts" at 86 Ill. Adm. Code 130.401(c) provides that "[r]eward credits, sometimes referred to as hostess dollars, awarded to a host or hostess for sponsoring a party for friends at which sellers may show and solicit orders for their merchandise, and which are awarded based upon the amount of sales generated at the party, are included in gross receipts subject to tax when applied toward purchases of the seller's merchandise. The value of the reward credit equals the dollar amount credited when the reward credit is applied." See 86 Ill. Adm. Code 130.401(c).

In addition, you may wish to refer to general information letters such as ST-04-0017-GIL and the general information letters discussed in that letter. The Department provides access to general information "Sunshine Letter" rulings through the Department's internet website under the heading of "Legal Research."

I hope this information is helpful. If you require additional information, please visit our website at www.ILTAX.com or contact the Department's Taxpayer Information Division at (217) 782-3336. If you are not under audit and you wish to obtain a binding PLR regarding your factual situation, please submit a request conforming to the requirements of 2 Ill. Adm. Code 1200.110 (b).

Very truly yours,

Edwin E. Boggess
Associate Counsel

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